SKILLS INDEX

As the number of financial services jobs increases, the industry faces critical skills gaps

KEY TAKEAWAYS

1/ A range of factors, from the Great Recession to decades of outsourcing, have combined to create a shortage of qualified candidates that will only be exacerbated in the coming years.

2/ Without action, financial services institutions will see critical skills such as strategy and profit and loss management walk out the door as their workforce retires.

3/ Banks and firms should move quickly to implement strategies to retain baby boomers and facilitate knowledge transfer to the next generation of leaders.

The financial services industry faces a skills gap in a number of areas, many of them critical to the operations of financial services companies. Meanwhile, baby boomer retirements lurk as a demographic time bomb threatening to widen the gap further, while the industry's move toward centralization of services and the subsequent reduction in diffusion of key skills could compound the challenge.

The Great Recession that ended in June 2009 took an unmistakable toll on the financial services industry. According to the U.S. Bureau of Labor Statistics (BLS), the number of jobs in financial activities fell by more than 60,000 from 2002 to 2012, to approximately 7.8 million. By 2022, however, the BLS expects the industry to add 751,000 jobs from its 2012 level.

As the number of jobs in financial services grow, however, demand for talent will exceed supply in a number of vital areas. The Strayer@Work Skills Index identifies several such deficiencies, including a 19 percent gap in strategy and, critically, a 49 percent gap in profit and loss management, an essential skill for senior financial services management. Meanwhile, with U.S. Census Bureau data showing that 10,000 baby boomers will reach the traditional retirement age each day, the silver tsunami of baby boomer retirements threatens to widen the gap as financial services companies lose the expertise of senior-level employees.

FUELING THE GAP

Various factors over the past several decades have contributed to the skills gaps currently confronting the financial services industry. The industry's weak performance in the 1980s prompted job reductions, a trend that was driven further by a wave of industry mergers in the 1990s. Meanwhile, faced with balance sheet challenges, the financial services industry—like others—looked for cost-cutting opportunities and began eliminating the training programs it had long offered to help employees develop the skills necessary to become effective senior managers.

The industry trend toward increased centralization of services and management functions—including pricing, planning, and underwriting—further eroded the number of employees developing those skills. While such centralization might promote efficiencies, it also reduced the diffusion of necessary skills to younger employees, meaning fewer future managers received valuable end-to-end training on the institution's business early in their careers.

The industry's considerable embrace of outsourcing and offshoring has further contributed to today's skills gaps. Indeed, the banking and financial services industry has been a leader in outsourcing IT and many business process services to lower-cost regions of the world. Having started the move in earnest in the early 2000s, today it's not atypical for major banks to have their customer relationship management and other business support services provided by staffs in Asia, Eastern Europe, or Latin America. Skills placed with an offshore business partner, however, mean skills that don't exist within the financial institution and aren't available to be shared with the next generation of workers.

Together, these factors have contributed to an environment in which fewer young financial services employees have the opportunity to develop certain business critical skills at a time when their graying colleagues are poised to take those skills with them into retirement.

Fewer young financial services employees have the opportunity to develop certain business critical skills at a time when their graying colleagues are poised to take those skills with them into retirement.

[1] http://www.statista.com/statistics/245841/total-revenue-of-the-us-hotel-industry/
[2] H. Leslie Furr, "A linear review of the Great Recession's impact on tourism behavior," *Journal of Behavioral Studies in Business*, Volume 7 - September, 2014. http://www.aabri.com/manuscripts/131779.pdf

USE THE BOOMER TALENT BASE

As financial services companies look to address skills shortages, they must take several steps. First, they must identify the gaps, determine the likely impact, and prioritize the most critical areas. Next, senior management should work with HR to develop strategies to attract and retain talent with these skills. Last, financial services firms must determine methods to develop the necessary skills, whether through internal training programs and employee development paths, external training, or both.

Financial services executives should recognize the valuable resource they have in their aging workers and find ways to employ them to mentor and share skills with younger workers. In some cases, senior management and HR might need to rethink traditional approaches to employment. Part-time or mobile work arrangements may induce many baby boomers set for retirement to stay on in a mentoring role. Adjusting compensation or other incentives to appeal to semiretired baby boomers could also help convince them to stay on to pass needed skills on to the next generation of employees.

CLOSING THE GAP

To be effective, efforts to use older employees in developing the skills of younger counterparts can't be undertaken in an ad hoc fashion. Instead, they must be viewed as an important component and incorporated into the financial institution's broader skill development plan.

Ultimately, to successfully mitigate the impact of the skills gaps, financial services institutions must take a proactive approach, informed with an understanding of where the gaps exist, their potential impact, and a clear plan for addressing them.